

ERICSSON LM TELEPHONE CO

Form 6-K

July 19, 2017

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN ISSUER

Pursuant to Rule 13a-16 or 15d-16 of

the Securities Exchange Act of 1934

July 19, 2017

Commission File Number

000-12033

LM ERICSSON TELEPHONE COMPANY

(Translation of registrant's name into English)

Torshamnsgatan 21, Kista

SE-164 83, Stockholm, Sweden

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.
Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

THIS REPORT ON FORM 6-K SHALL BE DEEMED TO BE INCORPORATED BY REFERENCE IN THE REGISTRATION STATEMENTS ON FORM F-3 (NO. 333-203977) AND ON FORM S-8 (Nos. 333-196453, 333-161683 AND 333-161684) OF TELEFONAKTIEBOLAGET LM ERICSSON (PUBL.) AND TO BE A PART THEREOF FROM THE DATE ON WHICH THIS REPORT IS FURNISHED TO THE SECURITIES AND EXCHANGE COMMISSION, TO THE EXTENT NOT SUPERSEDED BY DOCUMENTS OR REPORTS SUBSEQUENTLY FILED WITH OR FURNISHED TO THE SECURITIES AND EXCHANGE COMMISSION.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TELEFONAKTIEBOLAGET LM ERICSSON (publ)

By: /s/ NINA MACPHERSON
Nina Macpherson
Senior Vice President & Chief Legal Officer

By: /s/ HELENA NORRMAN
Helena Norrman
Senior Vice President
Corporate Marketing & Communications Officer

Date: **July 19, 2017**

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SECOND QUARTER 2017, AS ADJUSTED FOR

INCORPORATION BY REFERENCE

Stockholm, July 18, 2017

SECOND QUARTER HIGHLIGHTS**Read more
(page)**

Reported sales decreased by -8% YoY. The RAN equipment market for 2017 is estimated to show a high

single-digit percentage decline compared with previous estimate of -2% to -6%. **2**

Gross margin was 27.9% (32.3%). **3**

Operating income was SEK -1.2 b. **4**

Networks operating margin was 7%. **6**

IT & Cloud operating income was negatively impacted by less capitalization of development expenses QoQ and YoY. **7**

Planned cost reduction activities will be accelerated, due to current market environment, to achieve an annual run rate reduction of at least SEK 10 b. by mid-2018. **2**

The company sees an increased risk of further market and customer project adjustments with an estimated negative impact on operating income of SEK 3-5 b. for the coming 12 months. **2**

Due to technology and portfolio shifts capitalization of costs will be reduced and is estimated to result in a net negative impact on operating income of SEK -2.9 (1.3) b. in the second half 2017, with no impact on cash. **2**

Cash flow from operating activities was SEK 0.0 (-0.7) b. **9**

SEK b.	Q2 2017	Q2 2016	YoY change	Q1 2017	QoQ change	6 months 2017	6 months 2016
Net sales	49.9	54.1	-8%	46.4	8%	96.3	106.3
Gross margin	27.9%	32.3%		13.9%		21.2%	32.8%
Operating income	-1.2	2.8	-145%	-12.3	-90%	-13.6	6.2
Operating margin	-2.5%	5.1%		-26.6%		-14.1%	5.9%
Net income	-1.0	1.6	-164%	-10.9	-91%	-11.9	3.7
EPS diluted, SEK	-0.30	0.48	-163%	-3.29	-91%	-3.59	1.08
Cash flow from operating activities	0.0	-0.7	-100%	-1.5	-100%	-1.5	-3.1

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CEO COMMENTS

We are not satisfied with our underlying performance with continued declining sales and increasing losses in the quarter. Execution of our focused business strategy is gaining traction. However, in light of current market conditions, we are accelerating the planned actions to reduce costs.

Based on the development in the first half of the year, our current view of the Radio Access Network (RAN) equipment market outlook is in line with external estimates of a high single-digit percentage decline for the full year 2017.

Considering the current market environment, the company position, and the more focused business strategy, we continue to assess risk exposure in ongoing contracts. Depending on the outcome, we see an increased risk of further market and customer project adjustments, which would have a negative impact on results, estimated to SEK 3-5 b. for the coming 12 months, of which 30% is estimated to impact cash.

Due to technology and portfolio shifts we will reduce the capitalization of product platform, software release development expenses and hardware costs. Together this is estimated to result in a net negative impact on operating income of SEK -2.9 (1.3) b. in the second half of 2017, with no impact on cash. This is to be compared with SEK -0.3 (1.2) b. of total impact on operating income in the quarter.

One key component in our focused business strategy is to reduce costs and increase efficiency. In light of the current market outlook, we will accelerate our actions to ensure that we can meet our target of doubling the 2016 operating margin beyond 2018. Actions will be taken primarily in service delivery and common costs and do not include R&D. Our plan is to implement cost savings with an annual run rate effect of at least SEK 10 b. by mid-2018, of which approximately half will be related to common costs.

The decline in the Networks result in the quarter was mainly caused by lower software sales, driven by two key factors; unusually strong software sales in the second quarter last year and cautious mobile broadband investment levels. On the positive side, we were ranked number one in radio by a leading global operator.

Performance improvements in Networks will be generated through both the continued ramp-up of Ericsson Radio System (ERS) and cost reductions, mainly in service delivery. The ERS continues to prove its competitiveness and now represents 49% of radio unit deliveries in the quarter. During the quarter, we announced a break-through contract to support Vodafone UK to evolve its 4G network and to provide 5G radio technology. To safeguard a future leading portfolio, we have started to increase R&D investments in Networks with a total increase of SEK 0.2 b. in the quarter. In line with our more focused strategy, we signed an agreement in the quarter to divest the power modules business.

The work to refocus our Managed Services business to improve profitability is well underway. So far, we have identified 42 contracts, with sales of SEK 7 b. in 2016, which we will either exit,

renegotiate or transform. To date, we have either exited, renegotiated or transformed nine of these contracts resulting in an annualized profit improvement of approximately SEK 140 million going forward.

IT & Cloud had another challenging quarter with significant losses. The sequential increase in losses is largely explained by lower capitalization of R&D expenses. Gross margin continued to be negatively impacted by large digital transformation projects.

Our IT & Cloud business is of strategic importance as our customers are preparing for 5G and will digitalize their operations and invest in a future network architecture based on software-defined logic. A key driver of performance in the business is the success of our new product portfolio, for which the rolling 12 month sales have grown 7%.

We are taking firm actions to improve performance in IT & Cloud, including stabilizing product roadmaps, addressing underperforming customer projects, improving new project delivery scoping and reducing costs, primarily in service delivery.

The operating income in our Media business improved sequentially as a result of increased sales, improved business mix and reduced costs. We continue the work to explore strategic opportunities for the Media business.

In this report, we have included a table on page 4 to track progress in the execution of our focused business strategy.

In light of current market environment and company performance, we are accelerating actions to reduce costs. Our focused business strategy is designed to take us back to technology and market leadership and improve company performance, also in a tough market. We see initial signs of traction in strategy execution including increased investments in R&D in Networks and ramp up of deliveries of Ericsson Radio System, increasing our competitiveness in the market.

Börje Ekholm

President and CEO

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FINANCIAL HIGHLIGHTS

SEK b.	Q2 2017	Q2 2016	YoY change	Q1 2017	QoQ change	6 months 2017	6 months 2016
Net sales	49.9	54.1	-8%	46.4	8%	96.3	106.3
<i>Of which Networks</i>	36.8	40.2	-8%	34.9	6%	71.7	80.2
<i>Of which IT & Cloud</i>	10.9	11.5	-5%	9.5	14%	20.4	21.3
<i>Of which Other</i>	2.2	2.4	-6%	2.0	13%	4.2	4.8
Gross income	13.9	17.5	-20%	6.4	116%	20.4	34.9
Gross margin (%)	27.9%	32.3%		13.9%		21.2%	32.8%
Research and development expenses	-8.4	-7.4	13%	-9.1	-8%	-17.4	-14.9
Selling and administrative expenses	-7.1	-7.1	-1%	-9.9	-28%	-16.9	-13.8
Other operating income and expenses	0.2	-0.2	-204%	0.1	70%	0.4	0.0
Operating income	-1.2	2.8	-145%	-12.3	-90%	-13.6	6.2
Operating margin	-2.5%	5.1%		-26.6%		-14.1%	5.9%
<i>for Networks</i>	7%	12%		-2%		3%	13%
<i>for IT & Cloud</i>	-26%	-13%		-94%		-58%	-17%
<i>for Other</i>	-44%	-20%		-143%		-90%	-16%
Financial net	0.1	-0.5	-112%	-0.4	-114%	-0.4	-1.0
Taxes	0.2	-0.7	-126%	1.9	-91%	2.1	-1.6
Net income	-1.0	1.6	-164%	-10.9	-91%	-11.9	3.7
Restructuring charges	-1.5	-1.0	48%	-1.7	-13%	-3.3	-1.7

PLANNING ASSUMPTIONS GOING FORWARD

Market related

Based on the development in the first half of the year, the company's current view of the Radio Access Network (RAN) equipment market outlook is in line with external estimates of a high single-digit percentage decline for the full year 2017. This is to be compared with the company's previous estimate of -2% to -6%.

Ericsson focused strategy related

Addressing low-performing operations in Managed Services and optimizing the offering in Network Rollout are expected to reduce full-year sales by up to SEK 10 b. by 2019.

The plan is to implement cost savings with an annual run rate effect of at least SEK 10 b. by mid-2018, split 50/50 between service delivery and common costs (G&A, IT, real estate etc).

The company aims to increase R&D efficiency. However, R&D expenses will increase short term, primarily in Networks.

Restructuring charges for 2017 are estimated to be in the higher end of the range SEK 6-8 b.

The company sees an increased risk of further market and customer project adjustments, which would have a negative impact on results, estimated to SEK 3-5 b. for the coming 12 months, of which 30% is estimated to impact cash.

Reduced capitalization of development expenses and hardware costs is expected to result in a net negative impact on operating income of SEK -2.9 (1.3) b. in second half 2017, with no impact on cash.

Other Ericsson related

The earlier communicated rescope managed services contract in North America will impact sales negatively YoY in Q3 2017.

Industry trends and business mix in mobile broadband in 2016 are expected to prevail in 2017.

Net sales

Sales as reported decreased by -8% YoY. The mobile broadband market remained weak in the quarter.

Sales in North America declined YoY mainly due to the earlier communicated rescope managed services contract effective as from Q4 2016. Sales in North East Asia declined slightly YoY. Sales in Mainland China were negatively impacted by lower Networks sales, partly offset by increased IT & Cloud sales.

Networks sales in Japan and South Korea increased. Sales in market area South East Asia, Oceania and India were stable YoY with growth in Vietnam and Australia while investments in India continued to decline.

As anticipated, sequential sales growth was below normal seasonality, following continued low investments in mobile broadband. Sales increased by 8% QoQ.

Total sales of Managed Services, as defined in 2016, including Broadcast Services, were SEK 6.3 (7.3) b. The decline mainly refers to the earlier communicated rescope managed services contract in North America. The definition of Managed Services will be adjusted in 2018, at the latest, to mirror the new organization.

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IPR licensing revenues

IPR licensing revenues declined YoY to SEK 2.0 (2.2) b. IPR licensing revenues were flat QoQ.

Gross margin

Gross margin declined to 27.9% (32.3%) with lower gross margins in all segments.

Gross margin increased sequentially to 27.9% from 13.9%. Q1 2017 included provisions and adjustments related to certain customer projects impacting gross margin negatively.

Operating expenses

Operating expenses increased to SEK 15.4 (14.5) b.

Operating expenses declined sequentially to SEK 15.4 b. from SEK 18.9 b.

The net effect on operating expenses of capitalized development expenses and related amortizations was SEK 0.2 b. in Q1 and SEK -0.4 b. in Q2.

Other operating income and expenses

Other operating income and expenses improved both YoY and QoQ. Several minor items contributed to the SEK 0.2 b. of other operating income and expenses in Q2 2017. The revaluation and realization effects of currency hedge contracts, impacting other operating income and expenses, were SEK 0.0 (-0.5) b.

As of Q1 2017, the funding of foreign exchange forecast hedging is managed through foreign exchange loans (USD) instead of foreign exchange derivatives. Therefore, as of Q1 2017, revaluation and realization effects of SEK 0.3 b. are included in financial expenses instead of in other operating income and expenses.

Restructuring charges

Restructuring charges were SEK -1.5 (-1.0) b. Restructuring charges were SEK -1.7 b. in Q1 2017. For full-year 2017, the restructuring charges are estimated to be in the higher end of the range SEK 6-8 b.

Operating income

Operating income decreased to SEK -1.2 (2.8) b. due to lower gross margin, lower sales and increased operating expenses.

Operating income improved sequentially from SEK -12.3 b.

Changes in treatment of cost going forward

Due to technology and portfolio shifts the company will reduce the capitalization of product platform, software release development expenses and hardware costs. This is estimated to result in a net negative impact on operating income of SEK -2.9 b. in the second half of 2017, with no impact on cash. The total impact on operating income in the quarter amounted to SEK -0.3 (1.2) b.

Financial net

Financial net improved both YoY and QoQ, mainly due to positive revaluation and realization effects of currency hedge contracts of SEK 0.3 b., and positive currency revaluation effects of SEK 0.2 b. The SEK strengthened against the USD between March 31, 2017 (SEK/USD rate 8.93) and June 30, 2017 (SEK/ USD rate 8.46). The hedge balance is in USD.

Taxes

Taxes were positive in the quarter following the negative income.

Net income and EPS

Net income and EPS diluted decreased YoY following the reduced operating income. EPS diluted was SEK -0.30 (0.48). Net income and EPS diluted improved QoQ following the improved operating income.

Employees

The number of employees on June 30, 2017 was 109,127 - a reduction of more than 7,000 employees in 12 months.

Focused strategy execution

The company has so far identified three indicators to measure the progress of strategy execution. KPIs for cost reduction will be added later.

Area	Activity	Status Q2 2017
Networks	Transition to new Ericsson Radio System	49% (ERS radio unit deliveries out of total)
IT & Cloud	Growth in sales of new product portfolio	Net sales growth of 7%, rolling 12 months
Managed Services	Addressing low-performing contracts	Out of 42 contracts identified, 9 have been renegotiated to result in an annualized future profit improvement of SEK 0.1 b.

In addition, the company announced in the quarter that it has signed an agreement to divest its power modules business.

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MARKET AREA SALES

SEK b.	Second quarter 2017				Change	
	Networks	IT & Cloud	Other	Total	YoY	QoQ
South East Asia, Oceania and India	6.3	1.3	0.1	7.7	0%	-3%
North East Asia	4.1	1.7	0.0	5.9	-3%	5%
North America	10.0	2.1	0.5	12.5	-7%	5%
Europe and Latin America	10.5	3.9	0.9	15.2	-11%	20%
Middle East and Africa	4.2	1.8	0.1	6.0	-17%	11%
Other ¹⁾	1.8	0.2	0.7	2.7	0%	-8%
Total	36.8	10.9	2.2	49.9	-8%	8%

1) Market Area Other includes licensing revenues, power modules, mobile broadband modules, Ericsson-LG Enterprise and other businesses.

South East Asia, Oceania and India

Sales were stable YoY. A negative impact from reduced Networks services sales was offset by mobile broadband growth in Vietnam and increased IT & Cloud sales, driven by the delivery of a core network project in Australia. Sales in India were still impacted by consolidations and tariff competition between operators.

North East Asia

Sales declined slightly YoY. Sales in Mainland China declined due to continued reduced investments by one customer, partly offset by increased IT & Cloud sales. Networks sales in Japan and South Korea increased.

North America

North America sales declined YoY, mainly due to the earlier communicated rescoped managed services contract. IT & Cloud sales declined due to fewer project milestones in the quarter. Mobile broadband infrastructure sales remained at a stable level. All major operators 5G trials are ongoing with good momentum.

Europe and Latin America

Sales declined YoY, reflecting capex constraints in Europe where 4G modernizations are largely completed. In addition, sales declined in Mexico and South America. The decline was partially offset by increased mobile broadband investments in Brazil and timing of deployments in Russia. In the quarter, a break-through contract was announced to support Vodafone UK to evolve its 4G network and to provide 5G radio technology.

Middle East and Africa

Sales declined YoY with some, still limited, signs of recovery in the macroeconomic environment. Challenges in capacity business continued, accompanied by decline in services domains.

Other

IPR licensing revenues amounted to SEK 2.0 (2.2) b.

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SEGMENT RESULTS

NETWORKS

SEK b.	Q2 2017	Q2 2016	YoY change	Q1 2017	QoQ change	6 months 2017	6 months 2016
Net sales	36.8	40.2	-8%	34.9	6%	71.7	80.2
<i>Of which products</i>	20.8	23.0	-10%	19.4	7%	40.2	45.8
<i>Of which IPR licensing revenues</i>	1.6	1.7	-9%	1.6	-3%	3.2	4.8
<i>Of which services</i>	16.1	17.2	-7%	15.5	4%	31.5	34.3
Gross income	10.4	12.5	-17%	8.0	30%	18.3	25.5
Gross margin	28%	31%		23%		26%	32%
Operating income	2.6	4.8	-46%	-0.5		2.1	10.6
Operating margin	7%	12%		-2%		3%	13%
Restructuring charges	-0.9	-0.5	97%	-1.4		-2.4	-0.9

Net sales

Sales as reported declined by -8% YoY. Investments in mobile broadband in certain markets remained low, impacting mainly product sales. The decline in network services sales YoY is due to lower managed services sales following the earlier communicated rescope contract in North America.

The mobile broadband market remained weak in the second quarter. The sales decline YoY is primarily driven by market areas Europe and Latin America as well as Middle East and Africa.

Reported sales increased by 6% QoQ. Sales in market areas North East Asia and South East Asia, Oceania and India declined QoQ with lower sales in Japan and Vietnam – two markets that reported strong sales in Q1 2017.

The Ericsson Radio System (ERS) continued to generate new business. The transition to the new ERS is tracking towards the target of accounting for 100% of total deliveries in 2018, with 49% YTD.

Gross margin

Gross margin declined YoY to 28% (31%) due to lower software sales with slightly lower IPR licensing revenues, increased restructuring charges and lower services margins. Improved hardware margins partly offset the decline. The lower services margins refer to a few managed services contracts with increased losses. These contracts are on the list of contracts that will be either exited, renegotiated, or transformed in order to improve the gross income.

Gross margin increased sequentially to 28% from 23% following provisions, adjustments and large restructuring charges made in Q1.

Operating income and margin

Operating income and margin decreased YoY, mainly due to lower sales, lower gross margin, increased restructuring charges and increased operating expenses. Improved other operating income and expenses had a positive impact on operating income. The YoY increase in operating expenses refers to increased R&D, mainly related to the already communicated focused business strategy. Selling and administrative expenses were flat YoY.

Operating income and margin increased sequentially.

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SEK b.	Q2 2017	Q2 2016	YoY change	Q1 2017	QoQ change	6 months 2017	6 months 2016
Net sales	10.9	11.5	-5%	9.5	14%	20.4	21.3
<i>Of which products</i>	5.1	5.3	-4%	4.1	23%	9.2	10.1
<i>Of which IPR licensing revenues</i>	0.2	0.2	-10%	0.2	-3%	0.4	0.6
<i>Of which services</i>	5.8	6.2	-6%	5.4	7%	11.3	11.3
Gross income	2.8	4.1	-30%	-2.1		0.7	7.3
Gross margin	26%	35%		-22%		4%	3